SchoolsFirst™
FEDERAL CREDIT UNION

March 24, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: ANPR – Part 704

Dear Ms. Rupp,

SchoolsFirst Federal Credit Union serves school employees and their families in Southern California. We have more than 395,000 Members and $7.8 billion in assets. SchoolsFirst FCU is pleased to have the opportunity to comment on the advanced notice of proposed rulemaking regarding the corporate credit union structure.

Separate Payment System Services
First we would like to address the issue of insulating payment system services. We agree that the payment system services should be isolated from other services and protected from investment and liquidity risks. We do not believe that creating a separate charter is necessary. We recommend instead that a CUSO be established for the payment system services. We further propose that member credit unions contribute paid in capital to the CUSO based on usage. The CUSO should operate under capital restrictions appropriate for a Limited Liability Company, and the price of services rendered should conform to the profit requirements of a CUSO structure. The CUSO investment authority should be the same as that of natural person credit unions. A CUSO arrangement would achieve the goal of creating a legal and operational firewall between the payment system services and other services.

Our further comments on the Corporate Credit Union system all apply to Corporates that provide investment and liquidity services – with payment system services being completely separate and insulated under a CUSO as described above.

One-Tier System
We do not believe there this a need for a two-tiered corporate system. We recommend eliminating the wholesale credit union and establishing a one-tier system. In order to maximize cost structures and optimize service delivery, we would propose that a similar structure used by the Federal Reserve Bank be implemented, whereby there is central control with regional offices providing support services.

We agree that the national Field of Membership afforded to Corporates has resulted in significant risk taking. The above suggestion for a single corporate system effectively changes the Field of Membership and removes the in-bred competitive nature and resulting need for risk taking.

Corporate Governance
We agree that NCUA should have appropriate oversight of Corporate Credit Unions and that directors have requisite knowledge and expertise to effectively meet board duties and obligations. In order to prevent unnecessary and/or excessive/burdensome restrictions on board composition and director qualifying criteria, NCUA should establish minimum standards for director competencies (e.g., credit union board member to have held a senior level financial or executive position) and a requirement that would provide that the board composition include a certain percent (perhaps one fourth to one third) of outside directors.

Term limits for board members should be carefully considered and balance depth of expertise with complacency concerns. In this regard, implementing three to five three-year term limits may be appropriate. The board of directors should be composed of credit union owners with the appropriate expertise to fulfill fiduciary requirements and outside directors to ensure objectivity. Appropriately compensating outside directors will help to ensure that the corporate system can attract and retain qualified individuals.

We further recommend that NCUA have the commensurate expertise to effectively provide oversight on the highly technical issues within the corporate system. This expertise can either be on staff or acquired through use of third party services to ensure appropriate valuation and review of controls and models.

Liquidity

With respect to liquidity, we believe that liquidity should be a core service of the corporate system, and there should be regulatory limits for short term and long term liquidity. In addition, other limitations should apply to interest rate risk and credit risk that will ensure adequate operating capital and earnings without over-leveraging member paid-in-capital. To that end, NCUA should establish aggregate cash flow limitations of asset terms up to 10-years, with the average-weighted life not to exceed three years. Further, documented liquidity contingency plans and policies should be required, which includes the need for stress scenario testing.

Investment Authority

Limiting corporate credit union investment authority from the current authorities granted is not preferred, rather implementing a risk-based capital requirement commensurate with the level of investment instrument risk (granted under the current authorities) and instituting a capital leverage ratio is preferred. Further, we recommend that NCUA establish regulatory limits regarding the concentration of investment types and underlying collateral and issuers. We recommend requirements include diversification of industries in the corporate's investment portfolio, creation of credit default warning systems and added capital requirements for lower credit rated instruments (another element for risk-based capital requirements).

The regulation should require Corporates to use monitoring tools to identify widening credit spreads. The stress modeling tools included in the regulation should include collateral credit risk measures. This should provide early warning and allow for balance sheet position change as appropriate.

Capital Requirements

As already mentioned, we recommend the implementation of risk-based capital requirements commensurate with the various levels of risk to balance risk-taking with the ongoing viability of the corporate entity. In this regard, we recommend that regulation establish the following ratios: a) capital leverage ratio based on the CCU capital composition between retained earnings, PIC and member capital, b) a core capital ratio excluding PIC and members capital (insulating PIC and members capital from excessive risk), and c) incremental capital for Base Plus, Part I-V before allowing them.

In closing, Corporate Credit Unions play a vital role in the credit union movement, providing credit unions with services they need to conduct business and to compete in the financial marketplace. Insulating the payment system services from investment and liquidity risks, eliminating the two-tier system, and ensuring adequate regulatory oversight are all moves in the right direction. Thank you again for the opportunity to express our views on the corporate credit union structure.

Sincerely,

Rudy Hanley
President/CEO
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)